

## TREASURY MANAGEMENT STRATEGY 2023/24

### Appendix 5d – Investment Strategy 2023/24 - 2025/26

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#### 1. Introduction

1.1 This Investment Strategy covers the following:

- Treasury Management Investments and the Council's investment and counterparty liquidity framework (section 2)
- The Treasury Investment Strategy for 2023/24 – 2025/26 (section 3)
- The Council's power to invest for Treasury Management purposes (section 4)

#### 2. Treasury Management Investments

2.1 The primary principles of security and liquidity, governing the Council's day to day treasury management activity are set out in the Statutory Guidance on Local Government Investments (3rd Edition) issued on the 2nd February 2018. The yield or return on investments is of secondary importance.

2.2 To achieve sufficient liquidity in its investments, guidelines will be used to determine the maximum periods for which funds may prudently be committed. These also apply to the Council's Prudential Indicators covering the maximum principal sums invested.

2.3 In relation to security, a policy will be applied to the categories of investment, the choice of investment counterparties with adequate security, and the monitoring of their security. This is set out in the Specified and Non-Specified investment sections below.

2.4 The Treasury Management Panel will maintain a counterparty list in accordance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to those which determine Specified and Non-Specified investments, as it selects which counterparties the Council will choose rather than defining what its investments are. The criteria are based on information from Fitch, Moody's and Standard & Poors, the three principal credit ratings agencies.

- (i) **Banks** - the Council will use banks which have at least the following Fitch or equivalent ratings from Moody's and Standard & Poors:
  - Short Term - F1 from Fitch or equivalent from Moody's or Standard & Poors.
  - Long Term - Single A from Fitch or equivalent from Moody's or Standard & Poors.
  - Support - 3 from Fitch or the equivalent from Moody's or Standard and Poors
- (ii) **Bank Subsidiary and Treasury Operations** - the Council will use these where the parent bank has the necessary ratings outlined above. The investment limit to be applied will be calculated across the whole group.
- (iii) **Building Societies** - the Council will use any United Kingdom Society with assets in excess of £1.5 billion.
- (iv) **Credit Unions**
- (v) **Local Authorities**
- (vi) **Investment in the UK Government** (including short-term gilts and sterling treasury bills) are permitted because of their overall security.
- (vii) **Investment in Money Market Funds** are not permitted.

(viii) **Non-UK Exposure Limits** - The Treasury Management Panel may impose overall sector or country limits to restrict the level of exposure within non-UK financial institutions. The Panel has no short-term plans to start investing in non-UK financial institutions, but it can foresee the possibility in future years covered by the Strategy when it may invest up to 25% of temporary cash investments in non-UK financial institutions which satisfy the criteria in (i) above and whose sovereign government rating is triple A according to Fitch or the equivalent from Moody's or Standard & Poors.

- 2.5 It is not considered necessary to apply different maximum time limits for investing with different counterparties according to their precise credit rating. Institutions are either on the list of potential counterparties for any timescale (subject to the overriding restriction of 364 days or less) or they are not on the list at all. The Treasury Management Panel has placed a 3-month time limit on deposits placed with all Banks and Building Societies on its counterparty list. This will be continually reviewed throughout the year.
- 2.6 The proposed criteria for Specified and Non-Specified investments are shown in section 4 for approval.
- 2.7 In the normal course of the Council's cash flow operations it is expected that only Specified Investments will be utilised for the control of liquidity.
- 2.8 The use of longer-term instruments (greater than one year from inception to repayment) would fall in the Non-Specified Investment category. These instruments will not be used for the control of liquidity. This will also be limited by the investment Prudential Indicator below.

### **3. Investment Strategy 2023/24 – 2025/26**

- 3.1 In Managing the Council's treasury operations on a day-to-day basis, the Treasury Management Panel is more concerned to avoid risks than to maximise returns.
- 3.2 The Treasury Management Panel currently operates a restriction of 3 months or less on all fixed term deposits placed with those counterparties included in paragraph 2.4 (i), (ii), (iii), (iv) and (v). It also considered it necessary to restrict temporary fixed-term investments to UK Banks and Building Societies and those subsidiaries of non-UK financial institutions which are incorporated in the UK. However, as market conditions improve the Panel is likely to lift these restrictions and extend the term of temporary investment back to a maximum of 364 days. Moreover, the Treasury Management Panel may invest up to 25% of temporary cash investments in non-UK financial institutions which satisfy the requirements set out in paragraph 2.4 (vii).
- 3.3 The Bank of England base rate determines the level of interest which can be earned on short term cash surpluses arising in normal day to day treasury activities. With the base rate at 3.5%, a typical three month deposit rate is currently 3.43%. Deposit rates are expected to increase with expected base rate rises. The Council's investment decisions are based on comparisons between the current level of interest rates and the market's expectation of a possible increase during the period covered by this report. As a result, it is likely that investment decisions will potentially be made for longer periods as interest rates peak and until investment rates start to fall in future. However, the overriding principle is to maintain sufficient security and liquidity within the cash balances and a shorter profile of temporary investments will help achieve this. The Treasury Management Panel, under delegated powers, will undertake the most appropriate form of investments based on current market conditions as surplus funds become available. The three-month time limit for temporary investments will continue during 2023 but may be relaxed if the Panel deem appropriate. The current restrictions are explained in more detail in paragraph 3.2 above.

#### **4. Power To Invest**

4.1 Blackpool Council has the power to invest:

- (i) for any purpose relevant to its functions under any enactment, and
- (ii) for the purposes of the prudent management of its financial affairs.

This includes investments which are not directly linked to statutory functions but are simply made in the course of treasury management. This allows for the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future.

- 4.2 Speculative borrowing in order to invest in the course of day-to-day treasury management activities is unlawful.
- 4.3 The speculative purchase and subsequent disposal of property is generally also unlawful. However, there may be occasions when such purchase and resale are necessary as part of a strategic development. This is permitted only where this is part of an approved project plan which is covered by proper statutory powers in pursuance of the Council's approved objectives. Examples of this are in the pursuit of delivery of projects related to Blackpool's regeneration strategy - such as the planned phases of the Central Business District and the development of land near the Airport.
- 4.4 Priority is to be given to the security of investments and then to liquidity. The highest rate of return (yield) can only be sought once officers are satisfied that the principal sums invested are secure.
- 4.5 In 2019/20 the Council expanded its Business Loans Fund further with the aim to promote, develop and support local businesses and public sector partners within the Blackpool area. The remaining pool of funding is available for applicants in 2023/24. Before any lending is authorised, the Loans Panel (which includes the Chief Executive, Director of Communications and Regeneration and Director of Resources) supported by both Accountancy and Legal, will analyse and validate the business case for each loan.
- 4.6 No other types of (Non-Specified) investments are identified as being permissible, other than those explicitly allowed as share or loan capital under paragraph 4.7.
- 4.7 The Council may invest in shares in its subsidiary companies or in exceptional circumstances, businesses that stimulate local economic growth and regeneration. The guidance defines acquisition of share or loan capital in a corporate body as capital or revenue expenditure (rather than as an investment).
- 4.8 Further details about how the Council manages the risks and rewards coming from its Business Loans Fund and from its investments in subsidiary companies, referred to above in paragraphs 4.5 and 4.7 above, are explained in more detail in its Capital Strategy.